Nationwide Economics

Weekly Economic Review & Outlook

July 25, 2022

The housing market continues to cool

Housing data showed a continued cooling in activity for June, slowing to about the levels seen during the recovery from the Covid lockdowns. While the declines were larger than expected, they followed from falling demand in the face of sharply higher mortgage rates and house prices. In other economic news, the index of leading economic indicators declined again, but does not yet signal that a recession is imminent.

Existing home sales fall to two-year low

Existing home sales fell by 5.4 percent for June to an annualized pace of 5.12 million units — the slowest pace since June 2020, when the market was just recovering from the Covid lockdowns. While pending home sales rose for May, they fell for April and the two-month average (a better indicator of reported existing sales than the most recent month by itself) slipped. As a result, the drop in reported sales was expected and consistent with other housing market indicators which suggest demand continued to cool in the face of rising mortgage rates and house prices.

Existing home sales are now down by over 20 percent from the beginning of the year and 14 percent from a year ago. There is likely more room for slowing of home sales as mortgage rates remain high (but below their recent peaks). As the Fed continues to raise short-term interest rates to slow the economy and inflation, long-term rates should move higher again, pushing mortgage rates upward as well. After declining in May, mortgage purchase applications fell again in June and July, suggesting slower sales could be coming in the near term. Still, job gains and demographics remain positive for housing demand, suggesting that a more significant drop is unlikely in the near term.

The inventory of existing homes for sale remains very low (at least after seasonal adjustment) and this continues to restrain sales and push prices higher. But inventories should continue to rise if sales fall further, as expected, which should help to slow house price gains and plummeting housing affordability.

Sharp drop in single-family housing starts

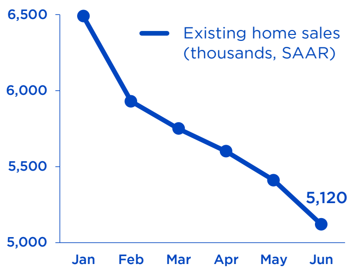
Housing starts also fell for June, with the annualized pace matching the low since April 2021. Single-family starts fell below one million units as starts overall have trended toward multifamily units over the past year as the demand for housing units remains solid. Despite the slowing pace of starts, housing units under construction climbed to an all-time high (1.68 million units). Declining and/or slower construction activity suggest that, like many other businesses, home builders are struggling with supply bottlenecks and having trouble finding workers.

Building permits were also down slightly for June — again due to a steep drop on the single-family side — which could be a leading indicator of a slower pace of starts next month. Builders reported diminished foot traffic of prospective buyers, lower present sales, and lower expected sales over the next six months in June (and all these measures dropped even more sharply in July) and appear to be adjusting their building plans accordingly.

Index of leading economic indicators declines for a fourth straight month

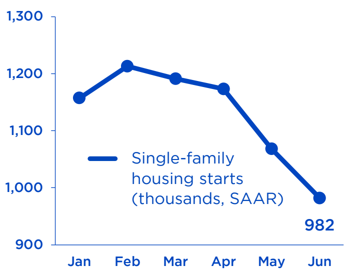
The index of leading economic indicators (LEI) declined by 0.8 percent for June, its fourth straight decline, although it remained 1.4 percent above its year-ago level. A negative 12-month change in the LEI has historically been a good predictor of recessions — although there have been several instances when the LEI year-ago percent change has been briefly negative without a following recession. A four-to-six- month period of negative LEI growth appears to be the best predictor of a downturn in the economy. With the index still up for June, it doesn't appear to be flashing an imminent warning sign — but its sharp downward trajectory is clearly worrisome. In his commentary for the June LEI data release, Ataman Ozyildirim, Senior Director of Economic Research at the Conference Board, noted that the Conference Board is now calling for a recession in the U.S. starting either at the end of this year or early next year. The updated recession call seems to be more associated with the pace of monetary tightening in the face of persistently high inflation than it is with the LEI.

Existing home sales have fallen significantly this year



Existing home sales have fallen in each month since January and now sit at a level slightly below the average over the pre-Covid period of 2013-2019.

Downward trend for single-family starts



Building activity has slowed, coinciding with declining demand for owner-occupied homes.

Sources: National Association of Realtors; Census Bureau

Contributors: Daniel Vielhaber, Economist | Scott Murray, Financial Markets Economist

The Week Ahead

In addition to the July FOMC meeting, here's what we are watching this week:

S&P CoreLogic 20-City price index — July 26

Annual house price gains remain above 20 percent

The 12-month change in the S&P CoreLogic 20-City house price index is expected to exceed 20 percent for a fourth consecutive month in May. Despite the higher mortgage rates and rising prices, overall housing demand still exceeds limited supply. But if housing demand continues to abate, price gains should soon moderate.

GDP — July 28

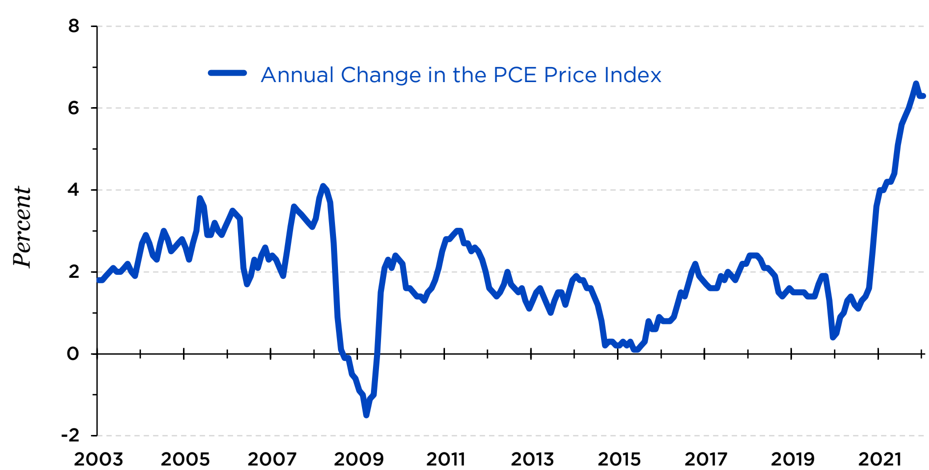
Another down quarter for GDP

GDP for the second quarter is forecast to decline as weak exports and slower investment cause economic activity to fall again. Supply chain constraints, elevated transportation costs, and the strong dollar have conspired to limit exports, restraining the post-pandemic expansion. Still, consumption rose in the second quarter, showing that consumers are at least somewhat resilient to inflation concerns. While a second consecutive quarter of falling real GDP would meet the old rule of thumb for a recession, we doubt that a recession will be called for the first half of 2022, as the declines in activity have not been widespread enough.

PCE price index — July 28

PCE inflation should moderate soon — but not yet

While we expect broad inflation from personal consumption expenditures (PCE) to slow soon, the June figure is likely to jump again — up by 0.9 percent for the month and by 6.8 percent from a year earlier. The PCE price index is impacted less by housing than the CPI and is closely watched by the Fed, with the uptick for the month supporting what is likely to be a 75 basis point hike in the federal funds rate at this week's FOMC meeting. But the core PCE price index is projected to rise by "only" 0.5 percent for the month and by 4.7 percent from a year earlier.



Sources: BEA/ Haver Analytics

Weekly Market Snapshot

Provided by IMG Business and Product Development – Data Analytics Team

Equity	Last	Returns 1 Week	YTD*	1 Year *
S&P 500 (Large)	3,962	2.57%	-16.17%	-7.95%
S&P 400 (Mid)	2,397	4.05%	-14.96%	-8.23%
S&P 600 (Small)	1,185	4.24%	-14.78%	-8.18%
S&P 500 (High Quality)	44	2.46%	-17.04%	-10.09%
Russell 1000	4,183	2.74%	-17.07%	-10.07%
Russell 2000	4,491	3.59%	-18.96%	-16.85%
Dow Jones	31,899	2.00%	-11.24%	-6.60%
NASDAQ	11,834	3.33%	-24.05%	-18.84%
MSCI EAFE	1,897	4.43%	-16.98%	-14.79%
MSCI EM	990	3.00%	-17.95%	-22.97%

*represents total return

S&P Metrics	LTM P/E	NTM P/E	LTM EPS Growth	NTM EPS Growth
Current	18.93	16.58	26.66	8.93
Prior Month	18.78	15.70	29.88	9.70
Prior Year	24.49	21.25	16.66	22.80

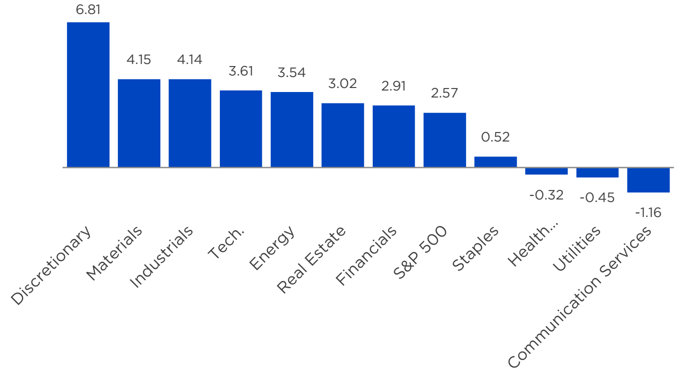
Fixed Income	Last	Returns 1 Week	YTD	1 Year
U.S. Aggregate	3.53%	1.17%	-8.74%	-9.54%
U.S. Inv Grade	4.43%	1.58%	-12.05%	-12.76%
U.S. High Yield	8.09%	2.48%	-10.50%	-9.25%
TIPS	3.18%	1.15%	-6.89%	-4.40%

Rates	Last	Change 1 Week	YTD	1 Year
6M T-Bill	2.97%	0.03	2.78	2.92
2 Yr Treasury	2.98%	-0.15	2.25	2.78
5 Yr Treasury	2.87%	-0.18	1.61	2.16
10 Yr Treasury	2.77%	-0.16	1.25	1.50
30 Yr Treasury	3.00%	-0.10	1.10	1.10

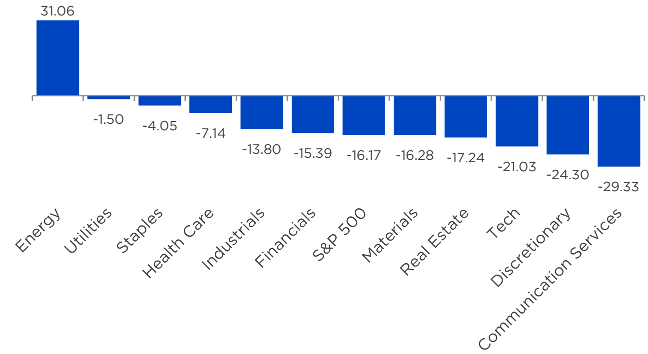
Spreads	Last	Change (Abs %) 1 Week	YTD	1 Year
AAA Rated	0.60	-0.03	0.09	0.10
BBB Rated	1.94	-0.07	0.71	0.78
High Yield	4.96	-0.43	1.86	1.72
10 to 2 yr Treasury	-0.21	0.00	-1.00	-1.28

Commodities/FX	Last	Returns (Currencies in $ strength) 1 Week	YTD	1 Year
Gold	1727.10	1.45%	-5.49%	-4.32%
Bitcoin	22696.48	8.88%	-51.08%	-29.82%
WTI Oil	94.70	-4.91%	25.71%	31.25%
EUR/USD	1.02	-1.50%	10.04%	13.25%
USD/JPY	136.05	-1.83%	18.14%	23.53%

S&P Sector Returns — Week (%)

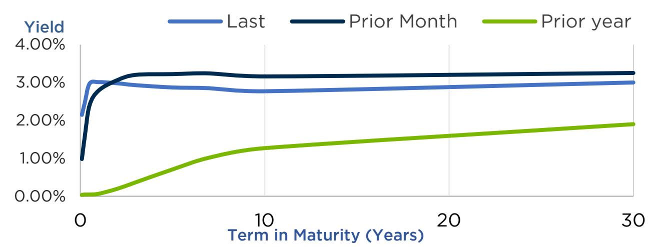


S&P Sector Returns — YTD (%)*



* represents total return

U.S. Yield Curve



Russell Style Returns - Week

	Value	Core	Growth
Large	2.3	2.7	3.1
Mid	3.2	3.7	4.6
Small	3.4	3.6	3.8

Russell Style Returns - YTD

	Value	Core	Growth
Large	-10.1	-17.1	-23.3
Mid	-12.6	-17.4	-26.1
Small	-13.1	-19.0	-24.8

Source: FactSet

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Additional Economic Indicators

Previous Week's Indicators

	Period	Actual	Previous
NAHB home builders' index	July	55	67
Housing starts	June	1.56 M	1.59 M
Building permits	June	1.69 M	1.70 M
Existing home sales	June	5.12 M	5.41 M
Initial jobless claims	Week ending July 16	251,000	244,000
Philadelphia Fed manufacturing index	July	1.9	-7.6
Index of leading economic indicators	June	-0.8%	-0.6%
S&P Global U.S. manufacturing index	July	52.3	52.7
S&P Global U.S. services index	July	47.0	52.7

This Week's Indicators

	Release Date	Period	Forecast*	Previous
S&P/Case-Shiller 20-City HPI (y/y)	Tues.	May	20.6%	21.2%
New home sales	Tues.	June	640,000	696,000
Consumer confidence index	Tues.	July	98.0	98.7
Richmond Fed manufacturing survey	Tues.	July	2	-19
Durable goods orders	Wed.	June	0.3%	0.8%
Pending home sales	Wed.	June	-0.5%	0.7%
Initial jobless claims	Thurs.	Week ending July 23	245,000	251,000
Real GDP	Thurs.	Q2	-1.0%	-1.6%
GDP price index	Thurs.	Q2	7.7%	8.2%
Kansas City Fed manufacturing survey	Thurs.	July	-3	12
Employment cost index	Fri.	Q2	1.5%	1.4%
Personal income	Fri.	June	0.4%	0.5%
Personal consumption expenditures	Fri.	June	0.5%	0.2%
Core PCE price index (m/m)	Fri.	June	0.5%	0.3%
Core PCE price index (y/y)	Fri.	June	4.7%	4.7%
Chicago PMI	Fri.	July	53.6	56.0
Consumer sentiment	Fri.	July	50.7	51.1

*** Nationwide Economics Forecast**

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